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Mexico's Improving Pork Sector Creates Positives for Imports

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Mexico's Improving Pork Sector Creates Positives for Imports

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Personal income growth and increased urbanization have Mexican consumers putting more pork into their shopping baskets. In response to this strong demand, the Mexican hog industry has consolidated into larger and more efficient operations and adopted improved genetics and management practices. Pork production in Mexico has increased by 23 percent between 1995 and 2005. However, this increased production has not kept pace with demand, so imports have surged to supply the shortfall. In 2005, Mexico imported 201,795 metric tons of U.S. pork, 118,140 metric tons of U.S. pork variety meats, and more than 122,000 live U.S. slaughter hogs.

The changes in domestic production and imports have accompanied important structural changes in the Mexican pork industry that include disease prevention and eradication, improvements in slaughter and processing plants, and consumer education. Some of these changes have been driven by Mexico's strong desire to export pork to the United States, Japan, and other countries; others result from efforts to improve the quality and safety of the pork supply.

On the export side, classical swine fever (CSF) has been a major factor in preventing Mexico from shipping pork to other countries. However, through eradication, prevention, and control programs, Mexico has regionalized several CSF-free states that are recognized by importing countries, including Japan and the United States. Japan is currently Mexico's largest export market for pork. Mexico has exported a growing volume of pork to Japan for several years, but exports under a bilateral free trade agreement began in April 2005 with a low-tariff quota of 38,000 metric tons in JFY 2005 that will increase to 80,000 metric tons by JFY 2009. And, given that Mexico is pork-deficit, any exports will create demand for additional imports from the United States and Canada.

More Federally Inspected Plants

These exports would not be possible without slaughter and processing facilities that meet international standards, and the Mexican government has committed resources to improving the availability and quality of federally inspected (Tipo Inspección Federal, or TIF) facilities and encouraging producers to use these facilities rather than using municipal plants or traditional slaughter methods. In 1999, Mexico had 33 TIF slaughter plants; by 2005, the number had grown to 160. The number of TIF plants that process pork is also increasing rapidly, especially in large metropolitan areas. In addition to the construction of new plants, many existing plants are undergoing extensive remodeling to meet sanitation, space, and temperature requirements.

The Mexican government's emphasis on developing TIF plants may have indirect benefits to the U.S. pork industry because a large percentage of TIF plant capacity in Mexico is underutilized.

Because slaughter and fabrication in TIF plants are more expensive than in non-TIF plants, the Mexican government has used economic incentives to encourage construction, remodeling, and use of these plants. In 2003, for example, domestic producers received $7 per head, on average, in government payments for hogs slaughtered in TIF plants. This assistance covered the higher costs associated with meeting higher quality standards required by TIF plants compared to non-TIF plants. In 2004, the Mexican government provided a cost differential of about $4.63 per animal for TIF slaughter of domestic hogs. Implemented on a regular basis, programs like this would likely have a significant effect on promoting the use of TIF plants, which would improve the overall safety and quality of pork in Mexico.

The Mexican government's emphasis on developing TIF plants may have indirect benefits to the U.S. pork industry because a large percentage of TIF plant capacity in Mexico is underutilized. A recent study estimated that, on a country-wide basis, between 40 percent and 45 percent of TIF slaughter capacity is not used (this includes slaughter capacity for pork and other species). Given that all imported slaughter hogs must be processed in TIF plants, the increase in the number of TIF plants and the high level of unused capacity would be expected to encourage larger imports of live U.S. hogs so long as prices are favorable to imports.

Retail Sales Shifting Toward Supermarkets

Changes at the retail level may also benefit the pork industries in both the United States and Mexico. Although traditional markets continue to hold the largest market share for meat sales in Mexico, large supermarkets and superstores have increased their share of food sales as rising incomes and

urban location allow more consumers to shop in these stores. In 2005, an estimated 40 percent of all food sold in Mexico was sold in supermarkets and 60 percent was sold in traditional markets. Within five years, these percentages are expected to be reversed, with supermarkets accounting for 60 percent of total food sales and 40 percent being sold in traditional markets.

Increased supermarket sales will guide future changes in the Mexican industry. For example, to help pull TIF-processed meat into supermarkets, the Mexican government introduced a program that rewarded processors and retailers for promoting federally inspected meat and educating consumers about its benefits in terms of quality and safety. Under this promotional program, the government provided a one-to-one match for money spent promoting meat slaughtered and processed in TIF plants. This match was available to anyone in the pork supply chain, and the promotions targeted consumers through highly visible marketing materials at meat counters and displays in supermarket meat cases.

Overall Demand Benefits U.S. Exports

As with the movement toward TIF processing and slaughter, this type of program has potential benefits for imported product. Because U.S. live hogs must be slaughtered in TIF plants, the pork from these animals enters the Mexican retail and manufacturing sector as TIF-certified. In addition, imported U.S. pork that is cut, further processed, or fabricated at a TIF plant receives the TIF certification seal and is not differentiated from domestic product. To the extent that such promotions increase overall demand for pork in supermarkets, they benefit imports of U.S. live hogs and pork through overall increased sales and by educating consumers about the safety and quality associated with pork processed in federally inspected facilities and sold in modern retail outlets. This type of program also complements programs by the U.S. Meat Export Federation to educate Mexican consumers about the desirability and value of these same attributes in imported U.S. pork.

One result of the TIF promotional program has been that many retail outlets and TIF processing facilities now purchase meat only from TIF facilities. The resulting increase in demand for meat from TIF plants has encouraged managers of non-TIF plants to upgrade their facilities and apply for TIF certification in order to retain access to the important retail and processing sectors in metropolitan areas of Mexico. In addition, some importers who previously had not done further processing are upgrading their facilities and applying for TIF certification so they can add value to imported pork by cutting, packaging, and other processing before selling it to processors or end users.

Industry sources have indicated that the higher cost of TIF-processed pork relative to pork from non-TIF sources and to substitutable product (poultry meat for example) continues to limit retail sales and the use of TIF-certified pork in manufactured products. With an estimated 40 percent of the population living below the poverty level in Mexico, the demand for very inexpensive sources of protein throughout the country remains strong. However, the Mexican government's support of programs to improve supply and demand of pork processed at TIF plants has encouraged the domestic industry to improve product safety and quality. Mexican consumers and the Mexican pork industry are the major beneficiaries of these programs, but U.S. pork should see some long-term benefits from overall improvements in Mexico's pork processing and retail sectors. ◆

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the United States of transporting supply from the Midwest to major population areas. This has led to an increase in competitiveness of Brazilian ethanol imports despite the steep tariffs. Furthermore, volatility in U.S. ethanol prices, which sometimes leads to spikes, provides Brazil the opportunity to export ethanol to the United States. For example, in October 2005, the Brazilian ethanol price was $1.38 per gallon. Adding freight and the import tariff, the price for ethanol would be about $2.12 per gallon (including the 16¢-per-gallon transportation cost), which is below the $2.47 per gallon U.S. price for the same month. Consequently, Brazil was able to export 5.2 million gallons to the United States, up from zero exports in August and 2.7 million gallons in September 2005. In total, Brazil exported 86.5 million gallons of ethanol in 2004 and 65.9 million gallons in 2005, becoming the major source of U.S. ethanol imports. These imports may increase in the future, because of the projected expanding demand for ethanol in the United States. ◆

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